

191—17.1(508) Authority and purpose. This chapter is adopted and promulgated by the commissioner of insurance pursuant to Iowa Code section 505.8 and chapter 508.

The insurance division recognizes that licensed insurers routinely enter into reinsurance agreements that yield legitimate relief to the ceding insurer from strain to surplus.

However, it is improper for a licensed insurer, in the capacity of a ceding insurer, to enter into reinsurance agreements for the principal purpose of producing a significant surplus aid for the ceding insurer, typically on a temporary basis, while not transferring all of the significant risks inherent in the business being reinsured. In substance or effect, the expected potential liability to the ceding insurer remains basically unchanged by the reinsurance transaction, notwithstanding certain risk elements in the reinsurance agreement, such as catastrophic mortality or extraordinary survival. The terms of such agreements referred to herein and described in rule 17.3(508) would violate:

1. Iowa Code section 508.11 relating to financial statements which do not properly reflect the financial condition of the ceding insurer;
2. Iowa Code section 521B.2 relating to reinsurance reserve credits, thus resulting in a ceding insurer improperly reducing liabilities or establishing assets for reinsurance ceded; and
3. Iowa Code section 507C.12 relating to creating a situation that may be hazardous to policyholders and the people of this state.